

# OFFERING CIRCULAR



THE UNITED METHODIST FOUNDATION OF NEW ENGLAND  
(a New Hampshire non-profit corporation)

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## Introduction

The United Methodist Foundation of New England (“Foundation”) is a New Hampshire non-profit corporation with a mission to enhance the ministries of United Methodist churches and related United Methodist agencies by providing services that strengthen their fiscal base and promote faithful financial stewardship. The Foundation’s charter authorizes it to provide for the prudent administration and management of funds entrusted to the Foundation as Trustee by local churches, the New England Annual Conference (“NEAC”), United Methodist institutions, agencies, individuals, and ministries, whether within or outside the Boston Episcopal Area of The United Methodist Church, and institutions and agencies that are related to United Methodism and the work conducted by the Foundation whether within or outside this Episcopal Area.

Under its charter, the Foundation may accept, subject to the approval of the Board of Directors of the Foundation, funds for administration and management from any authorized entity or person, provided that the Foundation is named as trustee by such entity or person in a trust agreement in substantially the form attached to this Circular.

The Foundation has established and administers three socially responsible Collective Investment Pools (“Pools”): the Stock Pool, the Fixed Income Pool and the Money Market Pool. A participating person or entity that designates the Foundation as Trustee is eligible to participate in one or a combination of these Pools by electing an investment model portfolio (“Model Portfolio”) which fits its investment objectives and risk tolerances. Investments will be allocated by the Trustee in accordance with the Model Portfolio elected among the relevant Pools. Each Pool is operated as a common trust fund established pursuant to Section 19, Chapter 292 of the New Hampshire Revised Statutes Annotated, of which the Foundation is the Trustee.

While the Foundation’s Board of Directors has the responsibility for overseeing the operation of each Pool, the Board has designated an Investment Committee to act on its behalf in this regard. The Investment Committee is a sub-committee of the Board and consists of members of the Board (including At-Large and Ad-Hoc members). The Investment Committee will establish the investment strategy for each Pool and is responsible to ensure that the assets of each Pool are being invested in a manner consistent with that strategy; Pools will be rebalanced as required to maintain the target allocation. No person has been authorized to give any information or make any representations in connection with participation in any of the Foundation’s Pools other than those contained in this Offering Circular, and if given or made, such information or representations must not be relied upon as having been made or authorized by the Foundation.

The Foundation and the Pools are not subject to registration, regulation, or reporting under the Investment Company Act of 1940, the Securities Act of 1933, the Securities Exchange Act of 1934,

the Investment Advisors Act of 1940, or state securities laws, all in accordance with the Philanthropy Protection Act of 1995. Therefore, participants will not be afforded the protections of those statutes and regulatory provisions.

The Foundation will retain the services of one or more professional money managers to provide investment management of the assets in each Pool, all in accordance with the investment strategy for each Pool as established by the Investment Committee. Currently, the Foundation has retained the services of State Street Global Advisors and Charles Schwab & Co., Inc. to provide professional investment management of the assets for which the Foundation is Trustee. Pursuant to its agreement with the Foundation, State Street Global Advisors manages two separate asset pools - the Foundation Socially Responsible Stock Pool (Stock Pool), the Foundation Socially Responsible Fixed Income Pool (Fixed Income Pool). Pursuant to its agreement with the Foundation, Charles Schwab & Co., Inc manages the Foundation Money Market Pool. These Pools are more fully described below:

## **STOCK POOL**

The objective of the Stock Pool is long-term growth of capital, with relatively low current income -- specifically, a total rate of return that exceeds the rate of inflation (as measured by the Consumer Price Index) by 4%.

The target asset allocation of the Stock Pool is 75% domestic equities and 25% international equities, determined with reference to an index-based investment strategy involving two broadly diversified equity indices which have been screened according to the Foundation's social responsibility guidelines, and consistent with the Asset Guidelines set forth below.

The index forming the basis of the domestic equity portfolio is the Russell 3000 Index, which covers approximately 98% of the available market capitalization of the U. S. equity market, and includes the full range of growth and value stocks and large-, mid- and small-cap stocks. The socially screened replica of the Russell 3000 Index in which the Pool will be invested and constituting the Foundation's domestic equity portfolio, is expected to include approximately 800 issuers (i.e. companies) (rather than the 3000 issuers in the full Index) and is expected to track the performance of the Index within 0.57%.

The index forming the basis of the international equity portfolio is the MSCI (Morgan Stanley Capital International Inc.) EAFE Index, which comprises 21 MSCI country indices representing the developed markets outside of North America: Europe, Australasia (Australia, New Zealand and neighboring islands) and the Far East. Each country index is designed to cover approximately 85% of the market capitalization of each industry group within its country. Japan and the United Kingdom are the largest weights in the index, making up close to half of the portfolio. The index contains over 1000 issuers and has a total market capitalization of over \$10 trillion. The Foundation's socially screened replica of the EAFE Index captures the essence of this well diversified international benchmark, even though limited to American Depositary Receipts traded on U. S. exchanges (thereby excluding locally listed ordinary shares) and contains approximately 170 issuers, with an expected tracking error of 2.45% vs. the performance of the full EAFE Index.

A portion of the international equity, not to exceed 5% of the entire equity portfolio, may be allocated by the Investment Committee to emerging markets (EM), utilizing such investment strategies as the committee may deem appropriate.

Stock Pool Performance Index: (Custom) 75% Russell 3000, 20% MSCI EAFE and 5% MSCI EM

## **FIXED INCOME POOL**

The objective of the Fixed Income Pool is to provide current income and preservation of nominal principal.

The target allocation of the Fixed Income Pool is to be fully invested in fixed income securities, consistent with the Asset Guidelines set forth below, although up to 10% of the externally managed Fixed Income Pool may be invested in cash and cash equivalents from time to time. The Foundation's Loan Program, which is internally managed, is a part of the Fixed Income Pool. The Foundation provides loans to qualified local churches or United Methodist-related Agencies of the NEAC, where such loans are normally for the purchase, construction and/or repair of properties within NEAC boundaries. The Loan Program is supported by a staff loan officer, with oversight from the Board Loan Committee. Loans are subject to an underwriting process and secured by mortgage or assets on deposit with the Foundation. Under current Loan Program guidelines, which are subject to modification by the Investment Committee, loans may be outstanding in an aggregate amount equal to 10% of total Fund assets under management when secured by real estate or other assets, with an additional 5% available for loans secured by liquid financial assets held by the Foundation. The Foundation maintains a loan loss reserve for the Loan Program that is reviewed quarterly for adequacy.

Fixed Income Pool Performance Index: Barclays Capital Intermediate Gov/Credit

## **MONEY MARKET POOL**

The objective of the Money Market Pool is to provide as high a level of current income as is consistent with liquidity and the preservation of capital.

All cash and equivalent investments should be made with concern for quality. To that end, investments will be limited to commercial paper rated "A-1" by Standard & Poor's or "P-1" by Moody's, certificates of deposit of the 100 largest U.S. banks, securities issued or guaranteed by the U.S. Government and perfected repurchase agreements. The maximum amount of cash to be invested in the commercial paper or certificates of deposit of any one issuer will be 10% of the total portfolio. This diversification requirement does not pertain to investments in the short-term investment fund of the custodial bank or a money-market mutual fund.

Money Market Pool Performance Index: T-Bills and Money Market Index

## **How to Participate**

Any entity or person that designates the Foundation as Trustee is eligible to participate in one or more of the Pools described above. A participating entity or person shall receive one or more units of participation in each Pool in which it participates, depending on the characteristics of the Model Portfolio elected by the participant. The units are non-transferable.

Purchasing a combination of units in the Stock, Fixed Income and Money Market Pools may be necessary to meet the investment objectives of the participating entity or individual. To facilitate and assist a participating entity or individual in meeting its investment objectives, the Foundation has created Model Portfolios. The Model Portfolios consist of the Stock Model, Fixed Income Model, Balanced Growth Model, Balanced Income Model, Endowment Model, Money Market Model, and five (5) additional Custom Models.

To purchase units in one or more of the Pools, an entity or individual must select a Model Portfolio that corresponds to the asset allocation strategy that meets its or his investment objectives. These accounts will be rebalanced to maintain the target allocation of the selected Model Portfolio at least annually (more often during volatile market conditions, or if instructed by participant).

## **PARTICIPATION IN THE FOUNDATION IS SUBJECT TO CERTAIN INVESTMENT RISKS DESCRIBED HEREIN.**

DATED: July 2009

### **INCOME DISTRIBUTIONS**

Each Pool periodically distributes its investment income; income distributions may be paid or reinvested at the option of the participant. The Money Market Pool distributes income net of expenses.

### **UNIT VALUE AND VALUATION DATE**

The fair market value of a unit of participation in a Pool is calculated by dividing the net asset value of the Pool's investments and other assets by the number of outstanding units on the valuation date. The typical valuation date is the last business day of each month.

### **FEE AND EXPENSES**

The Foundation's fee is dependent on the Model Portfolio selected, and is based on the market value of its Pool components (Stock, Fixed Income and/or Money Market). This is an annual all-inclusive fee that covers investment management, custody, transaction costs and a portion of the Foundation's administrative expenses (see Appendix 1). This fee is computed at the given annual percentage rate of the market value of the assets of each Pool, charged at 1/12 of such rate of the market value on the last business day of each month. A portion of the Foundation's fee also supports the many services it provides local United Methodist churches and agencies.

### **OPENING AN ACCOUNT**

In order to open an account and invest in one or more of the Pools, investors should complete and return to the Foundation a Trust Agreement, Schedule A, and New Account Deposit Form ([Click Here](#) to get forms or visit our web site, [www.umfne.org](http://www.umfne.org), under Investments). Information on terms of entry, minimum investment requirements, expenses, distributions and transfer options, how to redeem units, reports, and authorized contact persons, is contained in the appended agreement forms.

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**UNITED METHODIST FOUNDATION OF NEW ENGLAND**  
*Investing With A Vision*

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A summary of the investment objectives, principal investment strategies (including the types of securities held in each Pool) and principal risks of investing in each Pool is set forth below and is designed to help you choose the Model Portfolio that best fits your investment objectives and tolerance for risk.

The general investment objective of the Pools is to maintain the inflation-adjusted value of funds under management while achieving growth of income and observing the limitations and social concerns of the United Methodist Church.

No investment in any Pool is a deposit of a bank, is insured or guaranteed by the Foundation, or is insured or guaranteed by the Federal Deposit Insurance Corporation, the Securities Investor Protection Corporation, or any other government agency. Since the stock and bond markets fluctuate, when you sell your units in a Pool, they could be worth more or less than what you paid for them.

***INVESTMENT STRATEGIES:***

**WHERE YOU INVEST MAKES A DIFFERENCE**

The Socially Responsible Investment Strategy reflects an active, fundamental investment approach, which seeks to match or outperform the benchmark indices, while adhering to guidelines in the Social Principles of the *Book of Discipline* of The United Methodist Church.

The Socially Responsible Strategy will normally exclude from the Pools companies that derive significant revenues from the following industries:

- ❖ Manufacturers of military weapons, whether nuclear, biological, or chemical
- ❖ Manufacturers of alcohol and tobacco products
- ❖ Manufacturers of gambling devices or operators of casinos
- ❖ Companies whose presence in developing countries contributes to the support of governmental policies that are repressive or oppressive to the people and deny them their rights
- ❖ Companies lacking environmental systems designed to limit their damage to ecosystems

In the Stock Pool, the Foundation also engages in active proxy voting to advocate for social justice, good corporate governance, and responsible environmental behavior.

**RISKS OF INVESTING IN THE POOLS**

The following is a description of one or more of the risks that you will face as an investor in the Pools. It is important to keep in mind one of the main axioms of investing: the higher the potential reward, the higher the risk. The reverse is also generally true: the lower the potential reward, the lower the risk.

**STOCK MARKET RISKS**

In the long-term, stocks have generally produced returns that have exceeded other asset classes. However, stock markets tend to move in cycles with periods of rising prices and periods of falling prices. In recent years, the U.S. stock market has been characterized by high volatility with a decline in stock prices based on adverse political, regulatory, market and economic developments in the U.S. and world economies. Foreign stocks can be more volatile than the U.S. market.

## **FIXED INCOME MARKET RISK**

Bonds also experience market risk, which is primarily attributable to changes in interest rates. The general rule is that if interest rates rise, bond prices will fall. The reverse is also true: if interest rates fall, bond prices will generally rise. These factors apply to government securities as well as to corporate securities. Also, if an issuer of debt has the right to prepay the principal of the debt prior to maturity, that debt may be subject to greater volatility if interest rates change.

A bond with a longer maturity (or a Fixed Income Pool investment with a longer average maturity) will be more volatile than shorter-term bonds. While the Money Market Pool is subject to this risk, because of their extreme short-term nature, money market instruments carry little market risk. Bonds and fixed income funds are also exposed to credit risk, which is the possibility that the issuer of a bond will default on its obligation to pay interest and principal. U.S. Treasury securities, which are backed by the full faith and credit of the U.S. Government, are generally considered to have virtually no credit risk. Corporate bonds rated Baa or above, such as some of the bonds held by the Fixed Income Pool, are generally considered to carry moderate credit risk. Corporate bonds rated Ba or lower are considered to have significant credit risk. *It is the policy of the Foundation not to hold any bond with a rating below Baa.*

## **OBJECTIVE RISK**

Another risk that investors face is investing their assets in the wrong asset class. An example of this risk could be having endowment, or long-term money, in short-term investment vehicles such as certificates of deposits or money market funds, which would expose the investor to inflation risk. The endowment would lose purchasing power over a period of years, generating less money for ministry.

## **DIVERSIFICATION**

Investing in multiple issues of securities across different sectors of the market will reduce risk, as unusual positive and negative results offset each other. Most investors do not have enough capital, time, or expertise to properly diversify an investment portfolio. The Foundation's Pools offer broad diversification.

## Selecting a Model Portfolio

To purchase units in one or more the Foundation's Pools, each entity or individual will select the appropriate Model Portfolio that matches their investment objectives. When referring to the asset allocation within each Model Portfolio, the Stock Pool allocation will precede the Fixed Income Pool allocation; for example, the Balanced Income Model Portfolio is a 40/60 mix, i.e. 40% Stock Pool/60% Fixed Income Pool.

### **Model Portfolio**

<b>Name &amp; Objective</b>	<b>Asset Allocation</b>
Stock Model Long-term Growth	100% Stock Pool
Balanced Growth Model Capital Growth & Income	60% Stock Pool / 40% Fixed Income Pool (+/-5%)
Endowment Model Sustainable Income & Growth	60% Stock Pool / 40% Fixed Income Pool (+/-5%)
Balanced Income Model Income & Capital Growth	40% Stock Pool / 60% Fixed Income Pool (+/-5%)
Fixed Income Model Current Income	100% Fixed Income Pool
Money Market Preservation of Capital & Income	100% Money Market Pool

The Custom Model Portfolios offer entities and individuals additional asset allocation strategies to meet their investment objectives. For instance, a church that wants slightly more growth than the Balanced Growth Model Portfolio may select the Custom (70/30) Model Portfolio.

### **Custom Model Portfolio**

<b>Name &amp; Objective</b>	<b>Asset Allocation</b>
Custom (80/20) Model Capital Appreciation	80% Stock Pool / 20% Fixed Income Pool (+/-5%)
Custom (70/30) Model Weighted Growth & Income	70% Stock Pool / 30% Fixed Income Pool (+/-5%)
Custom (50/50) Model Moderate Growth & Income	50% Stock Pool / 50% Fixed Income Pool (+/-5%)
Custom (30/70) Model Weighted Income & Growth	30% Stock Pool / 70% Fixed Income Pool (+/-5%)
Custom (20/80) Model Income & Capital Preservation	20% Stock Pool / 80% Fixed Income Pool (+/-5%)

## **The Endowment Model Portfolios**

The Endowment Model Portfolios, established January 1, 2003, are designed for church endowment funds that, by definition, are long-term investments. There are two Endowment Model Portfolios, one that distributes the calculated income and the other that reinvests the calculated income. These Endowment Model Portfolios follow the fundamental principles set forth by the *Uniform Prudent Management of Institutional Funds Act* of 2008, NH RSA Ch. 292-B (which allows for distributions from capital appreciation), as a way to address the church trustees' fiduciary responsibility to invest endowed funds such as to provide both income and a hedge against inflation. The Endowment Model Portfolios will have a payout amount that is determined annually by the Foundation's Investment Committee; the rate of distribution will be a percentage, up to 7% but normally in the 4-5% range per year, of the market value of the Model Portfolios (comprised of units of Stock and Fixed Income Pools) calculated using a 3-year (twelve quarters) rolling average. Distributions will accrue monthly, and be paid quarterly. Using the valuation of the Model Portfolios over a 3-year period smoothes out market volatility, helps maintain a predictable income stream for the church, and allows for the growth of the endowment.

**NOTE:** During periods of market decline, if capital appreciation, dividends and interest fall short of the pre-set payout percentage in a given year, the distribution may result in a return of principal.

### **TRUSTEE RESPONSIBILITIES (under the 1972 Uniform Management of Institutional Funds Act)**

- It is the duty of church trustees to preserve the historic dollar value of the gift(s) made by donors or the original corpus of the endowment, as that may not be expended. The "historic dollar value" means the value of the assets when originally given or as determined "in good faith" by church trustees.
- For New Hampshire churches and agencies, under the 2008 *Uniform Prudent Management of Institutional Funds Act*, NH RSA Ch. 292-A, trustees must take into consideration the historic dollar value of their endowment funds. If an institution has endowment funds with an aggregate value of less than \$2,000,000, the institution shall notify the attorney general at least 60 days prior to an appropriation for expenditure of an amount that would cause the value of the institution's endowment funds to fall below the aggregate historic dollar value of the institution's endowment funds. During the 60-day period, the attorney general may require the institution to obtain court approval for the proposed expenditure.
- Additionally, church trustees must use income in accordance with any gift vehicle restrictions that may apply to the given endowment. For example, an endowment created by a Will to provide scholarships may not be used to repair the church organ.

# APPENDIX 1

## Model Portfolio Fee Schedule

	<u>Target Mix</u>		
	(Stock/Fixed Income)		
Stock Model	100%/0	1.35%	
Endowment Model - Distributed	60/40	1.21%	4% payout rate (2009) is distributed
Endowment Model - Reinvested	60/40	1.21%	4% rate (2009) is reinvested
Balanced Growth Model	60/40	1.21%	
Balance Income Model	40/60	1.19%	
Fixed Income Model	0/100%	1.00%	
Money Market*	N/A	0.50%	
Custom (80/20) Model	80/20	1.28%	
Custom (70/30) Model	70/30	1.25%	
Custom (50/50) Model	50/50	1.18%	
Custom (30/70) Model	30/70	1.11%	
Custom (20/80) Model	20/80	1.07%	

Fees are based on target asset allocation.

\* The Foundation may lower its Money Market fee during periods of low interest rates.